Canada Council for the Arts | Conseil des arts du Canada

Quarterly

Financial Report

Unaudited

Period ended June 30, 2014
Published August 29, 2014

Bringing the arts to life
De l'art plein la vie

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Management Discussion and Analysis

Quarterly Report

Period ended June 30, 2014
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INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the three-month period ended June 30, 2014 as set out in the accompanying unaudited quarterly financial statements. Those statements are disclosed in accordance with the requirements of section 131.1 of the Financial Administration Act and are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

Management is responsible for the information presented in the unaudited quarterly financial statements and in this narrative discussion, both of which have been reviewed and endorsed by the Audit and Finance Committee of the Council's Board of Directors. In assessing what information is to be provided in the narrative discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the decisions of the primary user of this information, the Government of Canada.

This discussion contains "forward-looking statements" that reflect management's expectations regarding the Council's results of operations. These statements are not facts but only estimates based upon information and assumptions that are currently available to, or made by, management and which are subject to a number of risks and uncertainties. These and other factors may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.

The Financial Administration Act does not require the Council to file a Corporate Plan with the Government of Canada. Therefore, neither this narrative discussion nor the unaudited quarterly financial statements disclose a comparison of results against the Council's Corporate Plan. As required by PSAS, the unaudited quarterly financial statements provide comparisons to the Council's approved annual budget for the year.

HIGHLIGHTS

The Canada Council for the Arts announced on May 22, 2014 it will invest $1.5 million to support the creation of a national digital platform for independent works of Canadian film and video. The platform will support the distribution and dissemination of independent media artworks, making thousands of works available to programmers, curators, directors, artists and the general public.

On June 16, 2014, the Council launched Ājagemô, its new 3000 square foot exhibition hall at 150 Elgin with an inaugural exhibit entitled Land Reform(ed). Ājagemô will host work from Canada Council's Art Bank collection, as well as various public arts events. Ājagemô, meaning "crossroads" in Algonquin, was chosen to honour the hall's location on Algonquin land. It also reflects the power of art to connect people.

Net Results

	Three months ended June 30			
(in thousands of dollars)	2014	2013	Increase/ (Decrease)	% change
Revenue	1,198	1,033	165	16%
Expenses	(93,855)	(77,572)	16,283	21%
Government funding	78,000	78,000	-	0%
Net results for the period	**(14,657)**	**1,461**	**(16,118)**	

Overview of the First Quarter Net Results

The deficit for the quarter was $14.7M, a decrease of $16.1M over the first quarter of the previous fiscal year. This decrease is directly related to the increase of $16.4M in grants expense for the period compared to the comparative period last year. This increase in grants expense is due to timing in the approval of grant expenses.

The Council will continue to monitor its financial results with the aim of achieving the target projections set out in its original balanced budget.

IMPORTANT CHANGES

Operational Activities

The Council is continuing work on the update of its technology systems to realize efficiency gains in the delivery of the services to its clients and stakeholders.

The Canada Council introduced a Code of Ethics for its employees and conducted mandatory training sessions over the spring of 2014. The Council's Code of Ethics supplements the Values and Ethics Code for the Public Service. The purpose of the code is to enhance and maintain public trust and increase the public confidence in the Council.

Leadership and Governance

The Minister of Canadian Heritage and Official Languages on April 14, 2014, announced the appointment of Mr. Simon Brault as Director and CEO of the Canada Council for a five-year term. Mr. Brault had previously served as the Canada Council's Vice-Chair from 2004-2014. His appointment was effective as of June 26, 2014. He is replacing Mr. Robert Sirman, who had served two terms as Director and CEO, first appointed in 2006 and renewed in 2010.

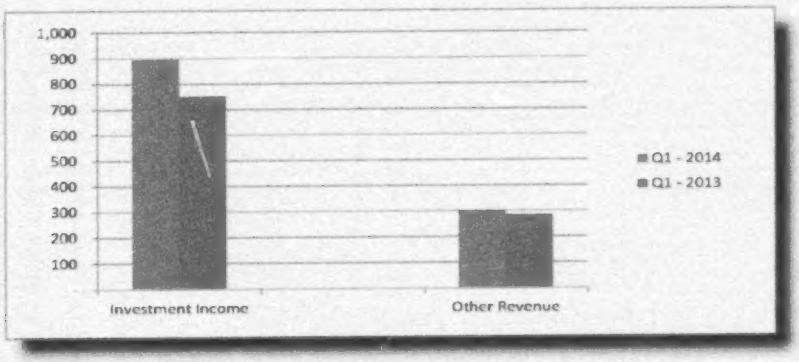
As a result of the departure of Ms. Denyse Jomphe, Director of Human Resources on June 25, 2014, the Council has undertook a recruitment process to fill this key position.

The Canadian Society of Corporate Secretaries (CSCS) recognizes the important contribution governance professionals make in terms of best practices that build and sustain shareholder and stakeholder value. The Council has been shortlisted for a CSCS Excellence in Governance Award for 2014 in the area of best practices in managing boardroom diversity.

FINANCIAL RESULTS

The following section provides further detail and explanation of financial results presented in the quarterly financial statements:

Revenue



Investment Income

Net investment income for the quarter is higher than last year mainly due to a quarterly distribution of dividend from the new Fixed Income manager versus a one-time annual distribution last year which occurred in December 2013. The net investment income was aligned with the budget. The annual investment income is expected to be aligned with budget.

Expenses

(in thousands of dollars)	Three months ended June 30			
	2014	2013	Increase/ (Decrease)	% change
Grants	84,934	68,522	16,412	24%
Program delivery costs	4,623	4,605	18	0%
Net Art Bank loss	126	71	55	77%
Canadian Commission for UNESCO	552	662	(110)	-17%
General administration	3,620	3,712	(92)	-2%
Total	**93,855**	**77,572**	**16,283**	**21%**

Grant expenses are higher compared to the same period last year due to the timing of competition deadlines and approval of results by the Board which differ from the prior year. The Council expects the annual grants expenses to be aligned with the original budget of $153.6M for the year.

Financial Assets

(in thousands of dollars)	June 30 2014	March 31 2014	Increase/ (Decrease)
Cash and Cash equivalents	34,016	251	33,765
Accounts receivable	2,302	4,116	(1,814)
Portfolio investments	328,825	323,081	5,744
Total	**365,143**	**327,448**	**37,695**

Cash and Cash Equivalents

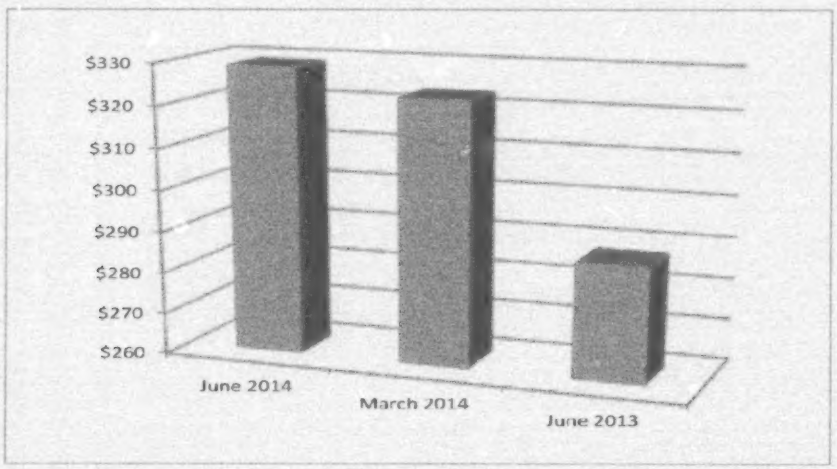
The increase of $33.8M in Cash Equivalents is due to the fact that while Parliamentary appropriations had been received, the related grants payments to recipients will occur in the subsequent quarter. This timing difference is consistent with the increase in Grants payable under the Liabilities section as of June 30, 2014.

Accounts Receivable

The decrease of $1.8M arises primarily from the receipt in the first quarter of $1.1M in Parliamentary appropriations for the 2013-14 Supplementary Estimates and the municipal tax rebates from the City of Ottawa for $0.5M recorded at year-end.

Portfolio Investments

The total market value of the portfolio as at June 30, 2014 was $328.8M of which $88.2M was externally restricted. This represents an increase of $5.7M since March 31, 2014 and $41.2M since June 30, 2013.



The total fund generated an absolute return of 1.8% for the quarter which was higher than the benchmark return by 0.1%. The main contributor to the returns for this period was the performance of the Canadian Equity manager. During the quarter, the Canadian equities had strong returns (6.9%) due to a more favorable market environment. Those results were partially offset by the performance of our Global equities managers (0.5%) compared to the index (1.4%) for the same quarter.

Since January 1st, 2014, the total fund generated an absolute return of 6.6% which was higher than the benchmark by 0.8%. The main contributor for this year-to-date return was the performance of the Canadian and Global Equity managers.

Liabilities

(in thousands of dollars)	June 30 2014	March 31 2014	Increase/ (Decrease)
Bank indebtedness	-	542	(542)
Grants payable	62,047	30,901	31,146
Accounts payable and accrued liabilities	2,085	3,544	(1,459)
Deferred revenues	7,410	7,477	(67)
Employee future benefits	2,589	2,530	59
Deferred Parliamentary appropriations	19,000	-	19,000
Externally restricted contributions	37,989	37,097	892
Total	**131,120**	**82,091**	**49,029**

Grants payable
The increase of $31.1M in comparison to the value as at March 31, 2014 arises from grants accrued which had not been paid by the end of the three month period.

Accounts payable and accrued liabilities
The decrease of $1.5M in comparison to the value as at March 31, 2014 is mainly due to a reduction of $2.0M in commercial invoices due to the timing of the payment schedule which was slightly offset by an increase of $0.6M in accrued salaries and benefits for this period also as a result of timing.

Deferred Parliamentary appropriations
The increase of $19.0M arises from the receipt of the July 2014 drawdown in Parliamentary appropriations at the end of this period which will be recorded as revenue in the following quarter.

Non-Financial Assets

(in thousands of dollars)	June 30 2014	March 31 2014	Increase/ (Decrease)
Tangible capital assets	8,843	8,904	(61)
Art Bank assets	19,400	19,400	-
Musical instruments	1	1	-
Prepaid expenses	519	315	204
Total	**28,763**	**28,620**	**143**

Art Bank Inventory
The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. At June 30, 2014 the appraised value of the Art Bank inventory was approximately $71M. The Council insures its Art Bank inventory for its estimated appraised value.

Musical Instruments
The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and eight prestigious musical instruments. In addition, the Council manages 13 instruments on loan. The appraised value of its musical instruments as at June 30, 2014 was $37.4M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value.

Cash Flow

(in thousands of dollars)	Three months ended June 30 2014	2013	Increase/ (D ease)
Beginning of period	(291)	(1,150)	859
Cash from operating activities	35,520	25,372	10,148
Cash for capital assets	(202)	(176)	(26)
Cash from (for) investing activities	(1,011)	304	(1,315)
Net Change	34,307	25,500	8,807
Ending balance for the period	**34,016**	**24,350**	**9,666**

Operating Transactions

The change in cash from operations of $10.1M is mostly accounted for by the early receipt of the 2014 July Parliamentary appropriation of $19M and the increase of $7.4M in grants payable compared to the same period last year, June 2013, for a total increase in cash inflow of $26.4M. This cash inflow was offset by the decrease in results of operations of $16.0M for those same periods.

Investing Transactions
The transactions that took place in the portfolio during the quarter are the new investments in the real estate and infrastructure asset classes and other re-balancing activities.

RISK MANAGEMENT

Corporate Risk

In line with good governance practices, the Council updates and revises its Corporate Risk Profile on an ongoing basis, identifying and including any changes in the Council's risk environment. In order to address the risks within the Council's corporate risk profile that are outside the Council's appetite for risk, effective risk mitigation strategies and action plans are developed, under the oversight of assigned members of executive management, to reduce the risk exposure to an acceptable and manageable level.

The Audit and Finance Committee endorsed the Risk Mitigation Strategies Plan presented by executive management at its March 2014 meeting. Executive management monitors progress of the implementation of these mitigation strategies and reports results to the Audit and Finance Committee on a regular basis.

Financial Risk

The Council is exposed to a variety of financial risks mainly through its investment portfolio. The Council's investment portfolio is primarily exposed to price risk, interest rate risk and currency risk. The Investment Committee reviews the Council's investment policy annually and recommends changes in the asset mix allocation, if necessary, to the Board. This policy sets out the long term investment objectives and guidelines under which the portfolio is to be invested.

USE OF PARLIAMENTARY APPROPRIATION

The following information is intended to supplement that provided elsewhere in this discussion regarding the Council's use of its Parliamentary appropriation.

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriation received in the period as revenue in the Statement of Operations. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly drawdown cash requirements. The cash-flow requirements may not necessarily match the timing of expenses reported in the Statement of Operations. The monthly drawdown is invested in a short-term pooled fund managed by a professional investment manager from which the Council draws its daily cash requirements.

The Parliamentary appropriations approved and received by the Council during the first quarter were as follows:

(in thousands of dollars)	June 30	
	2014	2013
Approved Annual Operating funding		
Vote 1 - Operating costs	**182,093**	**180,261**
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the three month period	(78,000)	(78,000)
Deferred - July 2014 Parliamentary appropriations	(19,000)	-
Balance of operating funding to be received	**85,093**	**102,261**

Canada Council for the Arts | Conseil des arts du Canada

Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended June 30, 2014 have not been audited or reviewed by our Auditor

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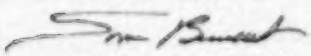
Management's Responsibility for Financial Reporting

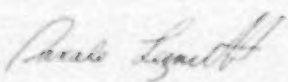
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

August 29, 2014



Simon Brault, O.C., O.Q., FCPA, FCGA
Director and Chief Executive Officer



Pascale Legault, CPA, CA
Chief Financial Officer

Statement of Financial Position

(Unaudited) (in thousands of dollars)	June 30 2014	March 31 2014
FINANCIAL ASSETS		
Cash and cash equivalents	$ 34,016	$ 251
Accounts receivable	2,302	4,116
Portfolio investments (Note 3)	328,825	323,081
Total financial assets	365,143	327,448
LIABILITIES		
Bank indebtedness	-	542
Grants payable	67,047	30,901
Accounts payable and accrued liabilities	2,085	3,544
Deferred revenues	7,410	7,477
Employee future benefits	2,589	2,530
Deferred - Parliamentary appropriations	19,000	-
Deferred revenues - Externally restricted contributions (Note 5)	37,989	37,097
Total liabilities	131,120	82,091
NET FINANCIAL ASSETS	234,023	245,357
NON-FINANCIAL ASSETS		
Tangible capital assets	8,843	8,904
Art Bank assets	19,400	19,400
Musical instruments	1	1
Prepaid expenses	519	315
Total non-financial assets	28,763	28,620
ACCUMULATED SURPLUS (Note 6)	$ 262,786	$ 273,977
Accumulated surplus is comprised of:		
Accumulated surplus from operations	220,283	234,940
Accumulated remeasurement gains	42,503	39,037
ACCUMULATED SURPLUS	$ 262,786	$ 273,977

The accompanying notes and schedules form an integral part of the financial statements.

Statement of Operations

(Unaudited)	Yearly Budget	Three months ended June 30	
(in thousands of dollars)	2014-2015	2014	2013
Revenue			
Net investment income (Note 7)	$ 9,127	$ 894	$ 749
Other revenue	1,210	304	284
Total revenue	10,337	1,198	1,033
Expenses			
Programs			
Grants	153,580	84,934	68,522
Administration	14,754	3,398	3,394
Services	6,181	1,225	1,211
	174,515	89,557	73,127
Net Art Bank loss (Note 8)	259	126	71
Canadian Commission for UNESCO (Note 9)	2,323	552	662
General administration	15,270	3,620	3,712
Total expenses	192,367	93,855	77,572
Annual deficit from operations before parliamentary appropriations	(182,030)	(92,657)	(76,539)
Parliamentary appropriations	182,083	78,000	78,000
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	53	(14,657)	1,461
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	-	234,940	237,997
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	$ 53	$ 220,283	$ 239,458

Statement of Change in Net Financial Assets

(Unaudited)	Three months ended June 30	
(in thousands of dollars)	2014	2013
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	$ (14,657)	$ 1,461
Acquisition of tangible capital assets	(202)	(176)
Amortization of tangible capital assets	263	229
	61	53
Acquisition of prepaid expenses	(503)	(291)
Use of prepaid expenses	299	306
	(204)	15
Net remeasurement gains	3,466	1,936
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(11,334)	3,465
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	245,357	224,890
NET FINANCIAL ASSETS, END OF PERIOD	$ 234,023	$ 228,355

The accompanying notes and schedules form an integral part of the financial statements.

Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended June 30	
	2014	2013
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	$ 39,037	$ 8,895
Unrealized gains attributable to:		
Portfolio investments	3,466	1,835
Amounts reclassified to the Statement of Operations:		
Derivatives	-	40
Portfolio investments	-	61
NET MEASUREMENT GAINS FOR THE PERIOD	3,466	1,936
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	$ 42,503	$ 10,831

Statement of Cash Flow

(Unaudited) (in thousands of dollars)	Three months ended June 30	
	2014	2013
Operating Transactions		
Surplus (deficit) from operations for the period	$ (14,657)	$ 1,461
Gains from disposal of portfolio investments (Note 7)	-	(149)
Decrease in net derivatives liability less realized gain transferred from remeasurement gains and deferred revenues - externally restricted contributions	-	(37)
Amortization of tangible capital assets	263	229
(Increase) decrease in prepaid expenses	(204)	15
Increase in employee future benefits	59	27
Income transferred from Deferred revenues - Externally restricted contributions to investment income (Note 5)	(375)	(564)
Net change in other non-cash items (Note 10)	50,434	24,390
Cash provided by operating activities	35,520	25,372
Capital Transactions		
Cash used to acquire tangible capital assets	(202)	(176)
Investing Transactions		
Acquisition of portfolio investments	(3,489)	(26,304)
Disposal of portfolio investments	2,478	26,608
Cash provided (used) by investing activities	(1,011)	304
NET INCREASE IN CASH AND CASH EQUIVALENTS	34,307	25,500
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	(291)	(1,150)
CASH AND CASH EQUIVALENTS, END OF PERIOD	34,016	24,350

The accompanying notes and schedules form an integral part of the financial statements

Notes to the Financial Statements
For the period ended June 30, 2014

(Unaudited)

1. AUTHORITY AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the Canada Council Act in 1957 and subsequently amended in 2001 by Bill C-40 to the Canada Council for the Arts Act, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the Income Tax Act. In accordance with section 85(1.1) of the Financial Administration Act, the Council is exempt from Divisions I to IV of Part X of this Act, except for subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of and the production of works in the arts.

The Council achieves its objectives primarily through grant programs to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Program administration expenses represent the direct costs of program delivery. Program services expenses represent costs incurred for non-grant activities in fulfillment of the Council's mandate and costs associated with the adjudication of grants. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canadian Commission for UNESCO (CCU) was established by the Canada Council pursuant to a 1957 Order in Council. The CCU acts as a forum for governments and civil society to mobilize the participation of Canadians in UNESCO's mandated areas of education, natural and social sciences, and culture, communication and information. The Secretariat for the CCU is provided by the Canada Council and led by a Secretary General who is part of the Council's Executive Management team.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These unaudited interim financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

Basis of preparation

These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2014. Accordingly, they should be read in conjunction with the audited annual financial statements. The interim financial statements are unaudited for all periods presented. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those disclosed in the Council's last audited annual financial statements.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting year. Employee-related liabilities, the estimated useful lives of tangible capital assets, the residual and appraised value of the Art Bank assets, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

Budgeted figures

Budgeted figures have been provided for comparison purposes and have been approved by the Board.

3. PORTFOLIO INVESTMENTS

	Year to date June 30, 2014					Year end March 31, 2014		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	$	$	$	$	%	$	$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Equity	104,678	-	37,042	141,720	54%	104,678	139,901	54
Fixed income	61,750	-	1,189	62,939	24%	61,750	62,116	24
Alternatives	20,630	-	5,210	25,840	10%	20,630	25,307	10
Money market	13,460	-	48	13,508	5%	14,944	15,030	6
Real estate	10,221	4	1,729	11,946	5%	7,977	9,452	4
Infrastructure	4,642	-	1,326	5,968	2%	4,454	5,994	2
	215,381	4	46,544	261,921	100%	214,433	257,200	100
Killam Fund								
Pooled funds								
Equity	28,604	-	9,383	35,987	54%	28,604	35,368	54
Fixed income	15,910	-	241	16,151	24%	15,910	15,940	24
Alternatives	5,298	-	1,332	6,630	10%	5,298	6,493	10
Money market	3,166	-	13	3,179	5%	3,713	3,735	6
Real estate	2,706	1	480	3,184	5%	2,141	2,555	4
Infrastructure	1,382	-	391	1,773	2%	1,335	1,790	2
	55,065	1	11,840	66,904	100%	55,001	65,881	100
Total investments	270,446	5	58,384	328,825		269,434	323,081	

Unrealized gains/losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired. The Council does not consider these investments to be other-than-temporarily impaired.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8% (March 31, 2014 - 8%) of that Fund with a total fair value of $21,294,000 (March 31, 2014 - $20,910,000). The total fair value of the externally restricted investment including the Killam Fund is $88,198,000 (March 31, 2014 - $86,791,000).

The long term objectives of the Canada Council Endowment and Special Funds and the Killam Fund are to generate long-term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital.

The Council invests in units of equity, fixed income and alternative pooled funds and in limited partnership units of six real estate funds and four infrastructure funds. The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board approved investment policy to mitigate risk. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks adopted by the Board in January 2014. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	11%	5%	10%	15%
Global equities	43%	35%	40%	45%
Fixed income	24%	15%	25%	35%
Alternatives	10%	5%	10%	15%
Real estate	5%	0%	7.5%	10%
Infrastructure	7%	0%	7.5%	10%
Money market	5%	0%	0%	10%

The money market asset class includes short-term pooled funds used for future investments in alternatives and capital commitments in limited partnership units of real estate and infrastructure funds. These funds had a balance of $16,687,000 (March 31, 2014 - $18,765,000).

Investments in the equity pooled funds are comprised of units of three pooled funds, one Canadian fund and two funds that are invested in the global equity markets. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock exchange Index. The global equities are measured against the returns of the Morgan Stanley Capital International (MSCI) All Country World Index. Investments in the fixed income pooled fund are comprised of a mix of bonds, mortgages, emerging debt and other fixed income instruments. The fixed income fund is measured against the returns of the DEX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the Scotia Capital 91-day T-bill plus 4%. The assets included in the real estate funds are commercial real estate properties in Canada, the United States and globally. These investments are measured against the returns of the Investment Property Databank for the Canadian managers and the National Council of Real Estate Investment Fiduciaries (NCREIF) for the US manager. The infrastructure funds include four portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index plus 4.5%.

4. FINANCIAL RISKS AND FAIR VALUE

The measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

(in thousands of dollars)		Year-to-date June 30, 2014	Year-end March 31, 2014
Financial assets and liabilities and classifications	Measurement categories	Carrying amount and fair value ($)	Carrying amount and fair value ($)
Cash and cash equivalents	Fair value	34,016	251
Accounts receivable	Amortized cost	2,302	4,116
Portfolio investments[1]	Fair value	328,825	323,081
Bank indebtedness	Fair value	-	542
Grants payable	Amortized cost	62,047	30,901
Accounts payable and accrued liabilities	Amortized cost	2,085	3,544

1 The detailed fair value for the investments is listed in Note 3.

a) Establishing fair value

The carrying value of accounts receivable, grants payable and accounts payable and accrued liabilities approximates their fair values due to their short-term maturity.

The fair values of the investments are determined as follows:

- Pooled fund investments are valued at the unit values supplied by the pooled fund managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.
- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple funds strategies within the fund and determines the unit's fair value using the closing market prices for some strategies when available or using valuation model with non-observable data for other strategies.
- Real estate investment values are supplied by the fund managers using independently audited appraisals which are based on a valuation model with non-observable data. The independently audited appraisals are obtained annually.
- Infrastructure investment values are supplied by the fund managers using internally determined appraisals. The appraisals are based on a valuation model with non observable data and are audited annually.

b) Fair value hierarchy

The financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

Financial assets at fair value

	Year-to-date June 30, 2014				Year-end March 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	$	$	$	$	$	$	$	$
Cash and cash equivalents	15,786	18,230	-	34,016	-	251	-	251
	15,786	18,230	-	34,016	-	251	-	251
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Equity	-	141,720	-	141,720	-	139,301	-	139,301
Fixed Income	-	62,939	-	62,939	-	62,116	-	62,116
Alternatives	-	-	25,840	25,840	-	-	25,307	25,307
Money Market	-	13,508	-	13,508	-	15,030	-	15,030
Real Estate	-	-	11,946	11,946	-	-	9,452	9,452
Infrastructure	-	-	5,968	5,968	-	-	5,994	5,994
Killam Fund								
Pooled Funds								
Equity	-	35,967	-	35,967	-	35,368	-	35,368
Fixed Income	-	16,151	-	16,151	-	15,940	-	15,940
Alternatives	-	-	6,630	6,630	-	-	6,493	6,493
Money Market	-	3,179	-	3,179	-	3,735	-	3,735
Real Estate	-	-	3,184	3,184	-	-	2,555	2,555
Infrastructure	-	-	1,773	1,773	-	-	1,790	1,790
	-	273,484	55,341	328,875	-	271,490	51,591	323,081
Total	15,786	291,714	55,341	362,841	-	271,741	51,591	323,332

Financial liabilities at fair value

	Year-to-date June 30, 2014				Year-end March 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	$	$	$	$	$	$	$	$
Bank indebtedness	-	-	-	-	542	-	-	542
Total	-	-	-	-	542	-	-	542

5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purpose or purposes specified by the endowment. The restricted endowment principal of $37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 6).

(in thousands of dollars)	Year-to-date June 30, 2014	Year-end March 31, 2014
Balance, beginning of period	$ 37,097	$ 27,721
Transferred from (to) investment income (Note 7)		
Net investment income	121	1,959
Use of funds	(496)	(2,379)
	(375)	(420)
Unrealized gains on portfolio investment	1,267	10,131
Reclassified to statement of operations - portfolio	-	(350)
Reclassified to statement of operations - derivatives	-	15
Balance at end of period	$ 37,989	$ 37,097

The unrealized gains and losses on portfolio investment are related to the change in fair value of those assets from the previous period.

6. ACCUMULATED SURPLUS

(in thousands of dollars)	Year-to-date June 30, 2014		Year-end March 31, 2014	
Accumulated surplus from operations				
Endowment - Original contribution		$ 50,000		$ 50,000
Endowment principal - Externally restricted contributions		37,569		37,569
Reserve for excess investment income				
Balance at beginning of the period	122,445		123,445	
Appropriated from the accumulated surplus during the period	-		(1,000)	
Balance at end of the period		122,445		122,445
Surplus				
Balance at beginning of the period	24,926		23,953	
Appropriated to the reserve for excess investment income during the period	-		1,000	
Deficit for the period	(14,657)		(27)	
Balance at end of the period		10,269		24,926
Total accumulated surplus from operations		220,283		234,940
Accumulated remeasurement gains (losses)				
Balance at beginning of the period	39,037		11,925	
Change in fair value	3,466		27,112	
Balance at end of the period		42,503		39,037
Balance of accumulated surplus at end of period		$ 262,786		$ 273,977

7. NET INVESTMENT INCOME

(in thousands of dollars)	Three months ended June 30	
	2014	2013
Gains from disposal of portfolio investments	$ -	$ 149
Income transferred from deferred revenues -		
Externally restricted contributions (Note 5)	375	564
Net losses on derivatives and currencies	(2)	(300)
Interest and dividend income	956	700
Investment portfolio management costs	(435)	(364)
	$ 894	$ 749

8. NET ART BANK LOSS

(in thousands of dollars)	Three months ended June 30	
	2014	2013
Rental revenue	$ 314	$ 342
Other income	35	43
Administration expense	(470)	(452)
Amortization of other capital assets	(5)	(4)
	$ (126)	$ (71)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended June 30	
	2014	2013
Program expenses	$ 282	$ 291
Program - contributions received	(3)	-
Administration expense	273	371
	$ 552	$ 662

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended June 30	
	2014	2013
Decrease in accounts receivable	$ 1,814	$ 1,962
Increase in grants payable	31,146	23,749
Decrease in accounts payable and accrued liabilities	(1,459)	(1,318)
Decrease in deferred revenues	(67)	(3)
Increase in deferred Parliamentary appropriations	19,000	-
Net change	$ 50,434	$ 24,390

11. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.